BOARD OF SUPERVISORS
AGENDA LETTER

one COUNTY one FUTURE

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Submitted on:
(COB Stamp)

Department Name:	CEO
Department No.:	012
For Agenda Of:	June 4, 2024
Placement:	Departmental
Estimated Time:	20 minutes
Continued Item:	No
If Yes, date from:	N/A
Vote Required:	Majority

TO:	Board of Supervisors	
FROM:	Department Director(s)	Mona Miyasato, County Executive Officer
	Contact Info:	Paul Clementi, Budget Director Nancy Anderson, Chief Assistant County Executive Officer

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SUBJECT: **Fiscal Year 2023-24 Third Quarter Budget Status Report**

County Counsel Concurrence
As to form: N/A

Auditor-Controller Concurrence
As to form: N/A

Recommended Actions:

It is recommended that the Board of Supervisors:

a) Receive and file the Fiscal Year (FY) 2023-24 Third Quarter Budget and Status Report as of March 31, 2024, showing the status of appropriations and financing for departmental budgets adopted by the Board of Supervisors; and

b) Determine that the above actions are not a project under the California Environmental Quality Act (CEQA), because pursuant to sections 15378(b)(4) and 15378(b)(5) the recommended actions consist of organizational, administrative, or fiscal activities of government that will not result in direct or indirect physical changes in the environment.

Summary:

The FY 2023-24 budget status report for the third quarter ending March 31, 2024, provides a fiscal year-to-date look at the County's financial position relative to the FY 2023-24 adjusted budget. As of the end of the third quarter, the General Fund is projecting a positive year-end variance of $6.3 million driven primarily by multiple departments with positive variances, including four with reportable variances, offset by lower than budgeted revenues in Community Services-Parks, lower than budgeted animal licensing revenues in Public Health, and overtime and pharmaceutical costs in the Sheriff's Office exceeding budget. This projected year-end positive variance is significantly less than the prior year, which ended with a $27 million General Fund surplus, and more in line with historical averages. Projections for

property taxes and cannabis taxes are all trending less than budgeted but overall Discretionary Revenues are projecting a positive variance which is discussed in greater detail below.

The fiscal position of the General Fund is monitored and presented to the Board on a quarterly basis, with a final report brought after the close of the fiscal year. At the end of the fiscal year, any funds resulting from a positive variance are carried forward for the Board to consider as part of the next budget development cycle as priorities and fiscal issues are identified.

Additionally, there were three Funds with positive reportable variances in the Special Revenue and Other Funds for the third quarter. All reportable variances will be discussed in greater detail below.

THIRD QUARTER REPORT

The third quarter for the fiscal year includes activity through March 31, 2024. In this report, projected financial results for the fiscal year end are compared to the annual adjusted budget. The major differences (variances) between budgeted and actual amounts are discussed on the following pages.

This report highlights the variances that exceed the following thresholds:

1) General Fund departments (including Discretionary General Revenues) with projected variances greater than $300 thousand per department; shown in the Financial Summary Report (Attachment A); and
2) Special Revenue and Other Funds with projected variances greater than $500 thousand per fund; shown in the Financial Summary Report (Attachment B).

Both Attachments A and B use actual revenues and expenditures for nine months of FY 2023-24, and then add departmental projections for the remaining three months to arrive at the "Projected Actual" columns. These annual Projections are then compared to Adjusted Budgets for both Sources and Uses to produce a "Net Financial Projected Variance" for the end of the fiscal year (shown in the far-right column of the Attachment A and Attachment B reports).

BUDGET POLICY

Departments are responsible for maintaining expenditure levels within the Board-approved budget appropriations in accordance with Board adopted policy and procedure *'Budgetary Control & Responsibility'* as the following abbreviated excerpt states:

A. If expenditures are projected to exceed appropriations, the department head responsible for the budget shall perform one or more of the following steps in the following order:

    1) Lower the expenditure level to maintain overall expenditures within the total amount budgeted,
    2) Request a transfer from fund balance within the same department and fund under the department head's control (if available for appropriation),
    3) Prepare a transfer request from General Fund Contingency and an agenda item for the Board of Supervisors with a memo to the County Executive Office, providing adequate justification.

In addition, the County Budget Act, Section 29121, California Government Code, places liability for over-expenditure upon the department director authorizing the expenditure:

> Except as otherwise provided by law, obligations incurred or paid in excess of the amounts authorized in the budget unit appropriations are not a liability of the county or dependent special district, but a personal liability of the official authorizing the obligation.

GENERAL FUND SUMMARY (Attachment A)

As of March 31, 2024, the General Fund had a projected year-end positive variance of $6.3 million. This is the result of favorable results in most General Fund departments, offset by reportable negative variances in three departments as described below.

General Revenues (Department 991) projects a positive year-end variance of $4.3 million (1.1% on an adjusted budget of $372.7 million), with significant variances detailed in the table below. This variance is due primarily to higher than budgeted Interest Income, Franchise Fees, and Sales Tax, as well as a reduction in General Fund Contribution (GFC) sent to a special revenue department. These positive variances are offset somewhat by negative variances in Property Tax. Cannabis Cultivation and Retail Storefront Taxes are also projected to come in lower than budgeted but are not contributing to the projected year-end variance and are discussed later in this section.

Property Taxes are projecting a negative variance of $1.7 million which constitutes just 0.6% of the total Property Tax revenue budget of $295 million and is primarily due to budget adjustments made by the Auditor's Office late in the FY 2023-24 budget development process. This negative variance is being offset by unanticipated growth in Interest Income, Franchise Fee revenue, and Sales and Use Tax. Interest Income earned in the General Fund remains robust with $7.0 million projected through year-end resulting in a positive variance of $3.7 million, primarily driven by the higher rate environment. Franchise Fees are also projecting higher-than-budgeted at $4.2 million through the fiscal year which would result in a positive year-end variance of $604 thousand. This is mainly attributable to increased gross receipts generated by a few of the utilities, which they are required to pay a percentage of as part of their Franchise Fee agreements. Sales and Use Tax also projects higher-than-budgeted at $15.6 million which would produce a $500 thousand positive variance, mainly due to an anticipated increase in tax revenue associated with elevated fuel prices. Additionally, Other Transfers show a net positive variance (the table reflects a negative expenditure which has a positive effect) of $865 thousand and is due to less GFC being transferred to the Department of Social Service's special revenue fund than was budgeted, as a result of higher than anticipated state revenues received.

Cannabis Cultivation and Retail Storefront Tax is currently projecting a negative variance of $1.8 million on an adjusted budget of $7.5 million. This projected variance continues to be primarily driven by a projected shortfall in Retail Storefront Tax primarily due to the timing of when each retail operator is expected to complete the land use entitlement and business licensing processes, relative to the timing assumptions made when the budget was developed. Additionally, receipts for the retail storefront businesses that have commenced operations have come in lower than anticipated as these are new operations in their respective locations. Staff will continue to monitor retail storefront tax receipts as this is a new activity being conducted in the unincorporated area without any historical data available for reference.

Discretionary General Revenue Summary (in thousands):			
Source	Adjusted FY 2023-24	Projected FY 2023-24	Variance Proj vs. Adjusted
Interest Income	$ 3,283	$ 6,977	$ 3,694
Franchise Fees	3,598	4,202	604
Sales and Use Retail State Tax	15,082	15,582	500
Cannabis Tax	7,500	5,700	(1,800)
Property Taxes	295,453	293,759	(1,694)
All Other Revenues	47,834	48,137	303
Total Discretionary Revenues	**$ 372,750**	**$ 374,357**	**$ 1,607**
Decrease to Cannabis Fund Balance	$ 7,500	$ 5,700	$ (1,800)
All Other Transfers	365,250	364,385	(865)
Projected Fiscal Year End Variance	**$ -**	**$ 4,272**	**$ 4,272**

Probation is currently projecting a positive $1.3 million variance (1.5% on an adjusted budget of $88.1 million), primarily due to salary and benefit savings. Although total excess salary savings is currently $2.5 million, a portion of those savings are due to vacant grant funded positions and won't impact the net financial impact as they will result in a corresponding decrease in funding.

Treasurer-Tax Collector is currently projecting a positive $767 thousand variance (7.3% on an adjusted budget of $10.6 million), primarily driven by higher-than-anticipated administrative revenues and salary savings on vacant, funded positions.

County Counsel is currently projecting a positive $299 thousand variance (2.4% on an adjusted budget of $12.6 million), primarily driven by salary savings from vacant, funded positions.

Community Services-Parks is currently projecting a negative $618 thousand variance (1.3% on an adjusted budget of $46.3 million), due primarily to lower than projected revenues in two key areas: 1) Parks had originally budgeted for $800 thousand in concessionaire revenues with the anticipated opening of a new restaurant at Goleta Beach in July 2023. However, throughout the year the restaurant's opening has been continually postponed due to several factors including winter 2023 storm interruptions and greater than anticipated structural and remodeling work on the building being performed by the concessionaire. As a result, the restaurant is not expected to open prior to July 2024; and 2) Impacts to camping revenues of approximately $320 thousand were also experienced as a result of inclement weather and closures related to the RV area improvement project at Cachuma Lake. These projections include the department drawing on available fund balance to partially mitigate losses.

The department is also pursuing a business interruption insurance claim to recoup at least some of these losses, although any payout would likely come next fiscal year. In the meantime, the projected negative variance may be slightly mitigated in the fourth quarter if greater than anticipated salary savings materialize, or if revenues come in higher than projected, but any remaining deficit the department still has at the end of the fiscal year will be absorbed by the overall General Fund surplus. If this occurs, and the department does receive an insurance payment in a subsequent year, that money will come back to reimburse the General Fund.

Public Health-Animal Services is currently projecting a negative $393 thousand variance (6.4% on an adjusted budget of $6.1 million), reflecting continued challenges due to decreased animal licensing revenues and increases in animal food costs and other expenses such as pharmaceuticals resulting from increased animals at the shelters. Online license sales have started to increase slightly as a result of the recent contracting of licensing administration services through DocuPet. However, the department has also been unsuccessful to-date in hiring an in-house veterinarian and has had to rely on more expensive contracted vet support. The department will draw on available fund balances in the current fiscal year to cover these cost overages.

The **Sheriff's Office** is currently projecting a $935 thousand deficit (0.4% on an adjusted budget of $201.8 million), mainly due to greater than anticipated overtime, as well as higher pharmaceutical costs in the jails.

<u>Pharmaceutical costs.</u> Pharmaceutical costs are currently trending approximately $664 thousand over budget. Based on the Sheriff's Office analysis, medication costs and utilization have greatly increased over previous years, largely due to higher costs for long-term injectable medications for psychiatric patients and those suffering from other chronic illnesses such as psoriatic arthritis, HIV, and Hepatitis B and C. Pharmaceutical costs from April 2022 through January 2023 were $743 thousand. Between April 2023 and January 2024, pharmaceutical costs were $1.16 million, an increase of $423 thousand or 57%. Many of these medications are only available in non-generic form and are accompanied by the requisite premium cost to the County. In the Main Jail alone in February 2024, the monthly average quantity of drugs dispensed between September 2023 and January 2024 increased by 32%. The Public Health Department will soon be bringing a Board letter to allocate opioid settlement funds, some of which will be recommended for the Medication-Assisted Treatment program (MAT) in the jails, and which could help to reduce Sheriff's negative variance. Negotiations are also ongoing with Wellpath to recover credits for missed and/or understaffed shifts over the current contract term.

<u>Set-aside for over-hires and referral/recruitment incentives.</u> On October 18, 2022, the Board authorized maintaining a $2 million set-aside in Prop 172 fund balance, to be released as needed each year upon review and recommendation of the County Executive Office and approval by the Board, to mitigate overages in the Sheriff's Office budget at year-end due to overtime usage, as well as for reimbursement of costs associated with the New Hire Incentive Program or other recruitment efforts pre-authorized by the County Executive Office. The set-aside funding also provides the fiscal flexibility for the County Executive Office to continue funding "over-hiring" if the Sheriff's Office is able to fill staff positions to capacity. The department has not requested use of these funds for over-hire in the FY 2023-24 year thus far given the number of vacant positions.

The Board also directed the County Human Resources Department to develop a referral program for hard-to-fill positions such as Custody Deputies, also to be funded from the $2 million set-aside, which was approved by the Board on February 14, 2023. As of May 1, 2024, $273,000 in hiring incentives have been promised to 13 hires, although a portion of that total will be paid out in future fiscal years, in accordance with Human Resources' incentive payment schedule for hard-to-fill positions. Additionally, the Sheriff's Office has paid $150,997 to marketing and recruiting firms to support filling critical vacancies. To maximize the benefit of this funding, the Sheriff's Office recently negotiated a significant improvement to the compensation structure with one of the two firms, which will see the recruiting firm paid when a viable candidate applies for a position, rather than being paid a flat monthly amount.

Review of Sheriff Overtime. Overtime costs through the first three quarters of the year were $14 million on an annual budget of $5 million, already exceeding the full year's budget by $9 million. If trends continue, the department is on track to exceed the annual overtime budget by $11 million at year-end, but is also projecting to offset most of these costs with salary and benefit savings from vacant positions. Overtime costs are $500 thousand lower in the first three quarters of the current year, as compared to the first three quarters of FY 2022-23, when they were $14.5 million.

In October 2022, the Board directed CEO staff to work with the Sheriff's Office to establish an overtime tracking and reporting methodology to improve transparency and analysis of overtime usage. To do so, the CEO's Office needed accurate information to determine the precise drivers of overtime and tracking to predict expected peaks. CEO staff worked with the Sheriff's Office to vet the department's proposed overtime validation process, including the impact of vacancies, academy and field/custody training time, lost time (e.g. sick leave, vacation leave etc.), and special needs (e.g. emergencies, investigations, seasonal). In response to CEO staff's request, the Sheriff's Office provided an analysis of overtime incurred in Fiscal Year 2022-23 that indicated the highest percentage of overtime was incurred due to filling behind lost time, followed by vacancies and academy and field/custody training time (excluding that which is reimbursable from external funding sources).

Even with this information and after thorough review, there are some challenges with the analysis as presented, including that certain categories of overtime can only be approximated rather than time-coded and tracked directly, which could result in potentially inaccurate assumptions or imprecise estimations of those overtime drivers. The launch of Workday may facilitate improved time tracking abilities, but specific system capabilities, and how the Sheriff may utilize them for this purpose, will not be known until implementation of the human capital management and payroll portion of the project. A continued issue is the number of vacancies in the department. Efforts have continued with the Sheriff's internal Human Resources group to improve the situation, and County Human Resources has proposed strategies to improve recruitment and retention for Custody Deputies.

In FY 2022-23, $1.5 million of the $2 million set-aside was released to balance the department's budget at year end, and the set-aside funding has been replenished to $2 million in FY 2023-24. $2 million is set aside again as part of the FY 2024-25 Recommended Budget for over-hiring, recruitment, and potential year-end budget balancing issues.

SPECIAL REVENUE AND OTHER FUNDS SUMMARY (Attachment B)

As of March 31, 2024, there were three Funds with reportable variances in the Special Revenue and Other Funds for the third quarter.

The **Fire Protection District (Fund 2280)** is currently projecting a positive $3.85 million variance (2.5% on an adjusted budget of $155.2 million), due to deferred hiring related to the Regional Fire Communication Center (RFCC) Dispatch project, in addition to several unanticipated vacancies across multiple sections within the Fire Department. Not included in the Attachment C vacancy report are 139 vacant, unfunded positions related to ambulance services that, at this time, are not planned to be filled in the current fiscal year.

The **Information Technology Shared Services (Fund 1915)** is currently projecting a positive variance of $906 thousand (3.8% on an adjusted budget of $23.7 million), due primarily to savings in Salaries and Benefits due to several vacant positions.

The **County Liability Self Insurance (Fund 1912)** projects a $775 thousand positive variance (3.0% on an adjusted budget of $26.6 million), due to an unanticipated reimbursement related to a property damage claim. At fiscal year-end, this unanticipated revenue will be preserved in a retained earnings account and will be used in future years to offset rates charged to departments.

ADVANCE CONSTRUCTION RESERVE ACTIVITY

The Board approved a Budget Development Policy in December 2021 to establish an Advance Construction Reserve in General County Programs to provide cashflow for reimbursable projects and track the activity. There are currently no funds remaining in the Advance Construction Reserve that don't already have planned uses for specific projects. The $3 million reimbursed to date (in the table below) has already been allocated in the Recommended 2024-25 Budget for planned uses.

Beginning in FY 2021-22, the budget included the temporary transfer of General Fund cash to Public Works (Fund 0017) for costs associated with high-cost bridge construction that requires cashflow in advance of federal reimbursement. There have also been temporary transfers to General Services for design and/or construction of several projects including the new Probation headquarters project and design services associated with the Main Jail Renovation. Transfers to these projects will be reimbursed once Certificate of Participation (COP) debt is issued; at the time of this writing, debt funding is anticipated to be received in mid-May 2024. Additionally, a transfer was made at the end of FY 2022-23 to cover costs on the Betteravia Solar Array, which will be reimbursed by a loan from the California Energy Commission prior to the end of FY 2023-24. The status of these transfers and reimbursements are reported in each quarterly update to the Board, as summarized in the below table.

Advance Construction Reserve Activity as of March 31, 2024

Project	Transferred To-Date	Reimbursed to General Fund To-Date
Floradale Bridge	($5,270,600)	$3,000,000
Foothill Bridge	($3,000,000)	$0
Probation HQ	($1,651,194)	$0
Main Jail Renovation	($291,514)	$0
Betteravia Solar Array	($1,416,379)	$0
Total	($11,629,687)	$3,000,000

FUNDED VACANCIES BY DEPARTMENT (Attachment C)

At the close of the third quarter, 625 of the County's 4,644 adopted, funded positions were vacant, resulting in an overall funded vacancy rate of 13%. This trend is similar to second quarter and slightly lower than the first quarter's vacancy rate of 15%. Departments with the highest rates of funded vacancies included in the Auditor-Controller (23%), Information Technology (22%), Child Support Services (18%), and Behavioral Wellness (18%). Some of these departments, such as Auditor and Child Support, report recruitment success since the end of the third quarter which, if sustained over the remaining months of the fiscal year, will show positive results in the fourth quarter report. However, many of the remaining vacancies are in historically difficult to fill positions, often requiring highly technical or specialized skills, although departments continue to work closely with Human Resources to fill all funded positions. The District Attorney, Clerk Recorder-Assessor, Board of Supervisors, Public Defender, and First 5 all had the lowest funded vacancy rates (at 8% or lower). A table of funded vacancy rates by department as of March 31, 2024, may be found in Attachment C.

As part of next year's budget strategies to address projected future year deficits, CEO staff may begin considering the elimination or freezing of certain unfilled, funded positions to balance upcoming year budgets.

ATTACHMENTS

A – Financial Summary Report – General Fund
B – Financial Summary Report – Special Revenue and Other Funds
C – Funded Vacancies by Department

Authored by:

Paul Clementi, Budget Director